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Department of the Treasury
Internal Revenue Service
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Tax Information for Sponsors of Contests and Sporting Events

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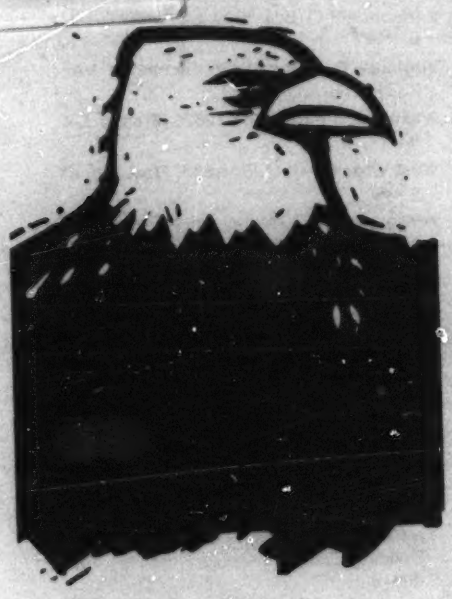

You can get the tax forms and publications mentioned in this publication by following the directions in the back of this pamphlet.

Introduction

Sponsors of contests or sporting events generally must file information returns if the value of any prize or award they give to any one person is $600 or more and they do not have to withhold income taxes on the prize or award.

Sponsors must withhold taxes on prizes they pay to certain nonresident aliens.

Prize and award winners must report taxable income they receive from sponsors. All contestants must determine whether or not they meet the requirements for filing a federal tax return. If they do, they must file the appropriate tax returns.

Guidelines for Sponsors

Sponsors of contests or sporting events include persons and organizations engaged in a trade or business for profit. They also include nonprofit organizations, such as civic or business leagues, chambers of commerce or boards of trade, churches or other religious or charitable organizations, foundations, social clubs, and agricultural associations.

Information returns. If you sponsor a contest or sporting event, you must file an information return on the value of any prizes or awards you make to an individual under the following two conditions:

1) The awards or prizes you make to that individual have a total value of $600 or more in any calendar year, and
2) You do not have to either withhold income taxes on the value of the prizes or awards or report the value of the prizes or awards on Form W–2, *Wage and Tax Statement.*

You must report the value of these prizes and awards on either Form 1099–MISC, *Statement for Recipients of Miscellaneous Income,* or Form 1099–NEC, *Statement for Recipients of Nonemployee Compensation.* The value must also be reported on Form 1096, *Annual Summary and Transmittal of U.S. Information Returns.* You must give copies of Forms 1099–MISC or 1099–NEC to the winners.

Forms 1099–MISC and 1099–NEC are information returns. Form 1096 is an annual summary report of all the winners for whom you must file information returns. For information about whether to use Form 1099–MISC or Form 1099–NEC, see *Instructions for Form 1096.*

Kinds of prizes and awards reported on information returns. You must report the value of prizes and purses totaling $600 or more you pay to contestants who perform in sports events or tournaments, such as prize fights, golf, bowling, rodeo riding, and auto racing. You must also report the value of prizes or awards totaling $600 or more you pay to essay contestants and participants in radio and television giveaway shows.

Identifying numbers. You should be sure to get the name, address, and social security number of each individual to whom a payment is made. You must keep a running record of all contestants to whom you pay prizes or awards so that you can file an information return if the amount you pay to a contestant during a year totals $600 or more.

Example 1. The Oak Golf Club sponsors a tournament in May of each year with prizes for first, second, and third low scorers. Harry Simms wins first prize of $1,500, Tom Wells wins second prize of $1,000, and Fred Birch wins third prize of $500. The Oak Golf Club must file information returns for Harry and Tom. An information return is not required for Fred's payment because his prize was less than $600.

Example 2. If, in Example 1, the Oak Golf Club sponsors another tournament later in the same year and Fred Birch again wins third prize of $500, the Oak Golf Club has to file an information return reporting total payments of $1,000 to Fred. His total amount is $600 or more in the same year.

Example 3. The Smithville Volunteer Fire Department holds a raffle in which a new automobile, valued at $6,500, is given to the winning ticket holder, Charles Black. The Smithville Volunteer Fire Department must file an information return reporting the value of the automobile won by Charles Black.

Example 4. Harriet Green, a high school senior, wins a $1,000 prize for the most outstanding project in a contest sponsored by the Grey Chemical Company. The contest is held to stimulate the interest of young people in the field of chemistry. The Grey Chemical Company must file an information return reporting the payment to Harriet Green.

Sporting events prizes paid to nonresident aliens. You must withhold income tax on the value of prizes or purses you pay to nonresident aliens who participate in sporting events in the United States.

If a nonresident alien wins such a prize, you generally must withhold taxes at the rate of 30% of the value of the prize, purse, or fee. You must report these withholdings on both Form 1042, *U.S. Annual Return of Income Tax to be Paid at Source (Under Chapter 3, IRC),* and Form 1042S, *Income Subject to Withholding under Chapter 3, Internal Revenue Code.*

In the following examples, the income received by the winners is not excluded from gross income by any U.S. tax treaties.

Example 1. Joe White contracts with Pedro Lago, a prizefighter who is a nonresident alien, to fight in an arena in the United States. Joe must withhold 30% of the purse Pedro wins.

Example 2. Sara Redd, a professional golfer who is a nonresident alien, enters the United States to play in a tournament at the Fairview Country Club. The Fairview Country Club must withhold 30% of the prize Sara wins.

In these examples, the withholding agent (sponsor) gives the winners a copy of Form 1042S, showing the amount of any payments made and any tax withheld.

Exception. No income taxes are withheld if:

1) The winner's purse is not compensation for personal services, and
2) The contestant claims exemption from withholding by filing Form 4224, *Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States,* with the sponsor. However, this income is taxable to the winner based on graduated income tax rates.

Example. Edgar Greene, a nonresident alien who is an owner and operator of a stable of race horses in his native England, races his horses at a track in the United States that has flat and harness racing. Edgar employs jockeys to ride his horses in flat races; however, he may

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drive his own sulky in harness races. The amounts he gets as a winner's purse are not compensation for personal services regardless of whether he wins the purses by driving a sulky himself in a harness race, or by hiring a jockey in a flat race. The track need not withhold income taxes on the winnings if Edgar files a Form 4224 with it.

Informing winners. You should give Copy B of the appropriate information returns to the winners by January 31 of the year after payment to help them prepare their income tax returns. However, these statements of earnings may be given to the winners in any form if you:

1) Clearly identify the items in language similar to that used on official forms, and
2) Print on the statement, "This information is being furnished to the Internal Revenue Service."

When and where sponsors file. You must file Forms 1099–MISC and 1099–NEC together with Form 1096 by February 28 of the year after the end of the calendar year in which the payments are made. Send these forms to the Director, Internal Revenue Service Center. You must use a separate Form 1096 for each type of form (1099–MISC and 1099–NEC). The addresses of the service centers are in the instructions for Form 1096.

Penalties. Both criminal and civil penalties can be applied for the willful failure to file required information returns on all taxable prizes and awards.

Guidelines for Prize and Award Winners

Taxable prizes and awards. The contestant must include in income the value of all prizes and awards that are not tax exempt. This income must be reported on the contestant's tax return.

Prizes paid in goods or services. If a prize or award is not made in money but in goods or services, the contestant must include in income an amount equal to the fair market value of the goods and services received. Such an amount must be reported on the contestant's tax return.

Refusing a prize. If a winner refuses to accept a prize or award, the winner does not have to report it, because it is not taxable income.

Tax-exempt prizes or awards. The value of a prize or award received as a result of past achievements (in religious, charitable, scientific, educational, artistic, literary, or civic fields) is tax exempt if:

1) The winner was selected without taking any action to enter the contest or proceedings; and
2) The winner is not required to render substantial future services to receive the prize or award.

The winner does not have to report such prizes or awards on a tax return. Such prizes or awards should not be reported on an information return.

Scholarships or fellowship grants. Scholarships or fellowship grants may be fully or partly tax exempt. If the scholarship or the fellowship grant is totally exempt from tax, an information return is not required and the contestant should not include the value of the scholarship or fellowship grant in income. See Publication 520, *Scholarships and Fellowships*, to determine if any of the scholarship or fellowship grant is tax exempt.

Scholarship prizes won in a contest are not considered scholarships or fellowships if there is no requirement that the prize be used for educational purposes. They must be included in the winner's gross income whether or not they are used for educational purposes.

How to Get IRS Forms and Publications

You can order federal tax forms and publications from the IRS Forms Distribution Center for your state at the address below. You can also photocopy tax forms from reproducible copies kept at many public libraries.

Alabama—Caller No. 848, Atlanta, GA 30370

Alaska—P.O. Box 12626, Fresno, CA 93778

Arizona—P.O. Box 12626, Fresno, CA 93778

Arkansas—P.O. Box 2924, Austin, TX 78769

California—P.O. Box 12626, Fresno, CA 93778

Colorado—P.O. Box 2924, Austin, TX 78769

Connecticut—P.O. Box 1040, Methuen, MA 01844

Delaware—P.O. Box 25866, Richmond, VA 23260

District of Columbia—P.O. Box 25866, Richmond, VA 23260

Florida—Caller No. 848, Atlanta, GA 30370

Georgia—Caller No. 848, Atlanta, GA 30370

Hawaii—P.O. Box 12626, Fresno, CA 93778

Idaho—P.O. Box 12626, Fresno, CA 93778

Illinois—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Indiana—P.O. Box 636, Florence, KY 41042

Iowa—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Kansas—P.O. Box 2924, Austin, TX 78769

Kentucky—P.O. Box 636, Florence, KY 41042

Louisiana—P.O. Box 2924, Austin, TX 78769

Maine—P.O. Box 1040, Methuen, MA 01844

Maryland—P.O. Box 25866, Richmond, VA 23260

Massachusetts—P.O. Box 1040, Methuen, MA 01844

Michigan—P.O. Box 636, Florence, KY 41042

Minnesota—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Mississippi—Caller No. 848, Atlanta, GA 30370

Missouri—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Montana—P.O. Box 12626, Fresno, CA 93778

Nebraska—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Nevada—P.O. Box 12626, Fresno, CA 93778

New Hampshire—P.O. Box 1040, Methuen, MA 01844

New Jersey—P.O. Box 25866, Richmond, VA 23260

New Mexico—P.O. Box 2924, Austin, TX 78769

New York—

Western New York: P.O. Box 240, Buffalo, NY 14201

Eastern New York (including NY City): P.O. Box 1040, Methuen, MA 01844

North Carolina—Caller No. 848, Atlanta, GA 30370

North Dakota—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Ohio—P.O. Box 636, Florence, KY 41042

Oklahoma—P.O. Box 2924, Austin, TX 78769

Oregon—P.O. Box 12626, Fresno, CA 93778

Pennsylvania—P.O. Box 25866, Richmond, VA 23260

Rhode Island—P.O. Box 1040, Methuen, MA 01844

South Carolina—Caller No. 848, Atlanta, GA 30370

South Dakota—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Tennessee—Caller No. 848, Atlanta, GA 30370

Texas—P.O. Box 2924, Austin, TX 78769

Utah—P.O. Box 12626, Fresno, CA 93778

Vermont—P.O. Box 1040, Methuen, MA 01844

Virginia—P.O. Box 25866, Richmond, VA 23260

Washington—P.O. Box 12626, Fresno, CA 93778

West Virginia—P.O. Box 636, Florence, KY 41042

Wisconsin—6000 Manchester Trafficway Terrace, Kansas City, MO 64130

Wyoming—P.O. Box 2924, Austin, TX 78769

Foreign Addresses—Taxpayers with mailing addresses in foreign countries should send their requests for forms and publications to:
Director, Foreign Operations District,
Internal Revenue Service,
Washington, DC 20225.

Puerto Rico—Director's Representative, U.S. Internal Revenue Service, Federal Office Building, Chardon Street, Hato Rey, PR 00918

Virgin Islands—Department of Finance, Tax Division, Charlotte Amalie, St. Thomas, VI 00801